



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

July 1, 2014

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name and title.

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

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Fourth District

MICHAEL D. ANTONOVICH
Fifth District

STATUS REPORT – AUDIT OF WORKERS' COMPENSATION THIRD-PARTY ADMINISTRATION SERVICES

On October 22, 2013, the Board approved a recommendation to find that workers' compensation claims third-party administration (TPA) services can be performed more economically by independent contractors. At that time, the Board instructed the Chief Executive Officer (CEO) to incorporate audit criteria which includes any known criminal activity, negligence, and overall contract compliance when evaluating TPA performance. This is the first bi-annual report on existing TPA performance.

Background

The County of Los Angeles (County) Workers' Compensation Program (Program) was established under the authority of County Code Section 5.31.050. A Program mandate is to ensure the full provision of benefits under the law to employees whose injuries arise out of, and in the course of, employment. This Program is the largest local agency workers' compensation program in the State of California, which issues approximately 500,000 payment request transactions annually. This Program is bound by a complex set of statutory, regulatory, and case law requirements that complicate claims administration and present inherent system risks.

A variety of quality control mechanisms are implemented to evaluate TPA performance, protect the County from improper payments initiated by TPA staff, and ensure adequate separation of duties. Current TPA contracts require contractors to engage an independent public accounting firm to perform at least a Statement of Auditing Standards No. 70 (Type II) audit. Payment transaction system functions are separated to require at least two individuals to release a payment transaction.

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The following approval levels are required for workers' compensation benefit payment transactions:

- Payments up to \$4,000 require one authorization and a separate individual to release the transaction;
- Payments exceeding \$4,000 require two authorizations and a separate individual to release the transaction;
- Payments exceeding \$5,000 require three authorizations and a separate individual to release the transaction;
- Payments exceeding \$7,500 require four authorizations and a separate individual to release the transaction; and
- Payments exceeding \$75,000 require four authorizations and a separate individual to release the transaction.

On-Site County Representatives

Currently, five On-Site County Representatives (OSCRs) are headquartered at TPA facilities. These County employees perform various functions. Their payment transaction audit and review functions include the following:

- Reviewing and authorizing payment transaction requests exceeding \$7,500;
- Evaluating and authorizing payment transaction requests initiated by a Workers' Compensation Appeals Board (WCAB) order or award;
- Performing fiscal reconciliation of all claims resolved by WCAB indemnity order, WCAB indemnity award, or indemnity payment request exceeding \$7,500;
- Identifying and recovering costs associated with penalties, excess costs, or overpayments caused by the contractors' actions or failures to act as defined in the contract; and
- Identifying and investigating payment transactions that are potentially fraudulent, and notifying the CEO Risk Management Branch when such are identified.

Additional OSCRs' responsibilities include:

- Providing subject matter expertise to County departments and injured workers to expedite the equitable resolution of workers' compensation benefit issues and control costs consistent with the provision of workers' compensation benefits allowable under the law;

Additional OSCRs' responsibilities include (Continued)

- Attending regularly scheduled department claim reviews to minimize County departments' exposure to workers' compensation and disability management liabilities;
- Assisting County Counsel and contracted law firms obtain information needed to properly defend litigated workers' compensation claims; and
- Analyzing and approving workers' compensation settlements or stipulations consistent with the negotiation levels established in the workers' compensation TPA contracts.

Since January 1, 2014, OSCRs reviewed approximately 313 payment request transactions per month exceeding \$7,500. Additionally, the OSCRs reviewed 740 payment transactions per month generated by a WCAB order or award. Many of these transactions required a claim file fiscal reconciliation.

Fiscal Reconciliation Process

The fiscal reconciliation process, or claim file balancing, requires the OSCRs to evaluate the workers' compensation awards or orders, and ensure the past, present, and future benefit stream comports to the Court awards/orders. This process requires a careful review of indemnity benefits owed and paid, benefits currently being paid, and payments that will be issued in the future ("cycled" or system-generated payments). The reconciliation process includes calculating savings caused by an ordered commutation of benefits. Workers' compensation claim files that do not balance are returned to the TPA for correction or reimbursement.

Since the fiscal reconciliation process evaluates the indemnity benefit stream, it allows OSCRs to review many payments without approving all the individual payments issued on a particular workers' compensation claim. An analysis of fully-developed claims (FY1994-95) demonstrated that 90 percent of all indemnity payment transactions and 89 percent of all indemnity paid amounts issued on workers' compensation claims had a Court award or order. Therefore, the fiscal reconciliation process allows a relatively small number of County employees to assess a large number of workers' compensation indemnity payments, ensuring the accuracy of such payments.

Random Transaction Audit

The purpose of the random transaction audit is to select and review individual payment transactions that may be split (to circumvent payment authority levels) or represent duplicate payments (payments issued to the same payee with overlapping service dates) to ensure payment process controls are being systematically applied, the individual payment is appropriate (not split or a duplicate payment caused by the inappropriate application of a "T" override), and identify that potential fraud or abuse is executed by TPA staff.

Methodology

During this reporting period, CEO Risk Management Branch staff randomly selected 200 payment transactions from a sample of 3,342 transactions that required a "T" override. The "T" override is manually applied to payment transactions that the workers' compensation claims management system will not release because of potential duplication. Once the "T" override is applied, the payment transaction is released. Such payment transactions represent the population most likely to be the result of inappropriately splitting a payment or creating a duplicate payment. Each payment transaction is audited to evaluate compliance with established protocols, unintended excess cost to the County, or TPA fraud. During the audit, CEO Risk Management Branch staff reviewed payment transactions to determine the following:

- The payment transaction was appropriate and did not result in a duplicate payment;
- The payment transaction was appropriate and did not result in the splitting of the payment to circumvent authority levels;
- The amount of the duplicate payment and potential excess cost to the County;
- The payment transaction required a "T" override;
- That established authority levels are obeyed;
- That payment transaction supporting documentation demonstrates appropriate segregation of duties; and
- Whether the payment transaction was issued as a result of potential fraud.

Findings

Summary of audit findings:

Transactions Audited	200
Total Paid	\$181,452.80
Split Payments Identified	0
Duplicate Transactions Identified	4
Amount of Duplicate Payments	\$2,465.71
Transactions Not Requiring "T" Release	17
Transactions Potentially Lacking Appropriate Authority Level	1
Transactions Potentially Lacking Appropriate Segregation of Duties	1
Transactions Identifying Potential Fraud	0

The largest duplicate payment was for \$1,491.04, which is a temporary disability payment to an injured worker. This potential overpayment was identified by the TPA prior to CEO Risk Management Branch staff presenting the audit findings to TPA management. The period of temporary disability is still in dispute and will be addressed in further Court proceedings. The County can assert the overpayment, if appropriate, as permanent disability at the time of settlement. The second largest duplicate payment, in the amount of \$500.00, was issued to a physician as a deposition fee. The physician's office returned the duplicate payment prior to the audit. A third duplicate payment was issued to a transportation company in the amount of \$444.67. In the event the TPA is unable to recover the overpayment, the TPA will reimburse the County in the amount of \$444.67. The final duplicate payment was for \$30.00 and issued to the pharmacy benefit management company, which will be reimbursed.

The CEO Risk Management Branch staff identified one payment transaction in the amount of \$40.62, where supporting documentation could not be located, demonstrating authority level compliance. It was noted that the billed amount of \$200.00 was appropriately submitted to the bill review vendor and reduced to the \$40.62 paid amount. A second payment transaction reflected the final operator as a claims assistant and not the appropriate payment release personnel. This has been discussed with TPA management.

SUMMARY

Even though the audit did not identify any fraud or abuse, it did find that TPA staff are applying "T" overrides on transactions that do not require them. CEO Risk Management Branch staff found 8.5 percent of the payment transactions audited did not require "T" overrides. This practice, done to expedite benefit delivery, weakens internal controls and may result in duplicate payments and unwarranted costs. TPA management has been notified of these findings.

The CEO is committed to reducing Program fraud exposure through the continuous improvement of processes. A multi-disciplined approach that includes TPA management and the evaluation of new technologies is required. CEO Risk Management Branch staff will be meeting quarterly with TPA management to identify improvements in business process monitoring with due consideration given to benefit delivery needs.

The CEO will provide another audit report to the Board in January 2015.

If you have any questions or would like additional information, your staff may contact Steven T. Robles, Assistant Chief Executive Officer/County Risk Manager, at (213) 351-5346.

WTF:BC
STR:AR:sg

c: Executive Office, Board of Supervisors
County Counsel